STATE OF SOUTH CAROLINA)

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Application of

Duke Energy Carolinas, LLC
for Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs.

COVER SHEET

DOCKET
NUMBER: 2007-358-E

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☒ Other:

INDUSTRY (Check one)

- ☒ Electric
- ☐ Electric/Gas
- ☐ Electric/Telecommunications
- ☐ Electric/Water
- ☐ Electric/Water/Telecom.
- ☐ Electric/Water/Sewer
- ☐ Gas
- ☐ Railroad
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- ☐ Telecommunications
- ☐ Transportation
- ☐ Water
- ☐ Water/Sewer
- ☐ Administrative Matter
- ☐ Other:

NATURE OF ACTION (Check all that apply)

- ☐ Affidavit
- ☐ Agreement
- ☐ Answer
- ☐ Appellate Review
- ☐ Application
- ☐ Brief
- ☐ Certificate
- ☐ Comments
- ☐ Complaint
- ☐ Consent Order
- ☐ Discovery
- ☐ Exhibit
- ☐ Expedited Consideration
- ☐ Interconnection Agreement
- ☐ Interconnection Amendment
- ☐ Late-Filed Exhibit
- ☐ Letter
- ☐ Memorandum
- ☒ Motion
- ☐ Objection
- ☐ Petition
- ☐ Petition for Reconsideration
- ☐ Petition for Rulemaking
- ☐ Petition for Rule to Show Cause
- ☐ Petition to Intervene
- ☐ Petition to Intervene Out of Time
- ☐ Prefiled Testimony
- ☐ Promotion
- ☐ Proposed Order
- ☐ Protest
- ☐ Publisher's Affidavit
- ☐ Report
- ☐ Request
- ☐ Request for Certificatio
- ☐ Request for Investigatior
- ☐ Resale Agreement
- ☐ Resale Amendment
- ☐ Reservation Letter
- ☐ Response
- ☐ Response to Discovery
- ☐ Return to Petition
- ☐ Stipulation
- ☐ Subpoena
- ☐ Tariff
- ☒ Other: Testimony of Jane Sadowsky

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007- 358 - E

In re: Application of Duke Energy Carolinas, LLC For Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	))))))	**TESTIMONY OF JANE SADOWSKY FOR DUKE ENERGY CAROLINAS**

This document is an exact duplicate, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITHIN YOUR COMPANY.

A: My name is Jane Sadowsky, and my business address is 55 East 52nd Street, 38th Floor, New York, NY. I am a Senior Managing Director at Evercore Partners.

Q: PLEASE DESCRIBE YOUR POSITION AND EMPLOYER.

A: At Evercore Partners, I am the Partner charged with developing and growing an advisory business focused on the power and utility sectors. Established in 1996, Evercore Partners is a leading investment banking boutique providing advisory services to prominent multinational corporations on significant mergers, acquisitions, divestitures, restructurings, and other strategic corporate transactions. Evercore also has a successful investment management business through which it manages private equity and venture capital funds for institutional investors. Evercore serves a diverse range of clients and investors around the world from offices in New York, Los Angeles, San Francisco, London, Mexico City, and Monterrey.

Q. PLEASE DESCRIBE BRIEFLY YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A: I received a Bachelor's Degree in liberal arts from the University of Pennsylvania (1983) and a Masters in Business Administration from The Wharton School at the University of Pennsylvania (1989). Prior to assuming my current position as a Senior Managing Director at Evercore Partners in June 2006, I was a Managing Director and Co-Head of North America Power Investment Banking for Citigroup. I joined Citigroup as a Managing Director in July 2000 from

Donaldson, Lufkin & Jenrette, where I had been an investment banker focusing on the power and utility industry since receiving my MBA in 1989.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: The purpose of my testimony is to: (1) provide a financial perspective on some of the fundamental ways in which investors value the common stocks of regulated utility companies, also known as investor owned utilities ("IOUs"); and (2) offer my expert opinion as to how investors will receive Duke Energy Carolinas, LLC's ("Duke Energy Carolinas" or "Company") Energy Efficiency Plan, if approved by the Public Service Commission of South Carolina (the "Commission").

Q: HAVE YOU REVIEWED DUKE ENERGY CAROLINAS' PROPOSAL IN THIS PROCEEDING?

A: Yes, I have reviewed the Company's Energy Efficiency Plan.

Q: WHAT IS YOUR UNDERSTANDING OF DUKE ENERGY CAROLINAS' ENERGY EFFICIENCY PLAN?

A: My understanding of the Energy Efficiency Plan, including the "save-a-watt" regulatory model, is that Duke Energy Carolinas is responding to the increasingly apparent national focus on energy efficiency with a proposal that achieves several objectives:

1. The save-a-watt proposal places the responsibility for a significant portion of capital expenditure for energy efficiency[1] investment in the hands of the investor-owned utility ("IOU"), Duke Energy Carolinas. Because the Company maintains scale advantages on the procurement side, cost of capital

[1] The term "energy efficiency," as used in this testimony, includes both energy efficiency/conservation and demand response measures.

advantages on the financing side, a comprehensive understanding of the local utility network, and an unwavering commitment to making the needed expenditures (versus placing the investment decisions in the hands of each individual customer who may have many alternate uses for their free cash), the responsibility for capital expenditures logically falls to the utility.

2. The save-a-watt proposal asks the Commission to consider the cumulative megawatts "saved" by the demand side reductions resulting from the Company's energy efficiency expenditures in the same way the Commission would consider a supply-side solution (*e.g.*, construction of additional generation assets and ancillary infrastructure needed to support those generation assets). The save-a-watt proposal values the demand-side solution (energy efficiency) based upon costs avoided from a similar reduction on the supply-side (plant and infrastructure construction), but incorporates a 10% discount.

3. The save-a-watt regulatory model recognizes that there are several societal benefits to demand reduction, including, most prominently, the reduction of air pollution, decreased reliance on new non-renewable resources, and the reduction in the use of existing non-renewable energy resources. The model makes no effort to quantify the positive societal externalities as a result of Duke Energy Carolinas' action. The proposal does, however, ask that the Commission recognize and compensate the IOU for approximately the comparable supply-side value created, in the form of rate base relief valued in terms of 90% of the avoided cost.

4. The save-a-watt model recognizes that the risks inherent in meeting South Carolina's electricity demand through new construction (*e.g.*, cost overruns, technical problems, and "NIMBY" delays) are reduced by implementing the save-a-watt solution.

5. The save-a-watt model enables Duke Energy Carolinas to offer its retail electric customers both greater energy efficiency and a 10% discount over what the supply-side solution would be.

Q: BASED ON YOUR EXPERIENCE AND EXPERTISE, WHAT IS YOUR OPINION AS TO WHAT INVESTORS DEMAND FROM UTILITY COMPANIES?

A. The common stock investor base of IOUs differs from that of the market as a whole. Most notably, approximately 35% of the typical IOU utility is held by retail (that is, individual) investors versus approximately 24% (weighted) of the market as a whole.[2] Many retail investors invest in their local utility. IOU investors are most concerned with:

1. Dividend policy/yield;
2. Stable and predictable earnings streams (lower risk in exchange for lower growth);
3. Solid management team who understands local regulations and has good relationships with regulators;
4. Compelling fundamental story supported by a sustainable (and growing) dividend;

[2] Source: Duke Energy Corporation Investor Relations

5. Rate of reinvestment into utility assets; and

6. Social and environmental responsibility.

Q: HOW IMPORTANT TO INVESTORS IS REGULATORY CERTAINTY?

A: Regulatory certainty is an important criterion for utility investors. There are numerous resources – notably Regulatory Research Associates, which is a subscription service -- and abundant Wall Street research coverage that focus attention on the regulatory "climate" of each IOU's jurisdiction(s) and provide a litany of rate case information and other key regulatory outcomes. This information is utilized by investors in determining the riskiness of a company's future earnings from regulatory operations and thereby helping to inform their investment decisions.

Q: HOW IMPORTANT TO INVESTORS IS THE OPPORTUNITY FOR THE UTILITY TO RECOVER ITS PRUDENT COSTS PLUS A REASONABLE RETURN ON ITS INVESTMENTS?

A: The opportunity to recover prudently incurred costs, and a reasonable return on their investment, is very important to investors. As indicated above, utility investors are inherently low risk investors who place enormous value on an IOU's dividend. Utility investors understand that they are trading high growth for lower risk plus income (via the dividend). That being stated, the visibility and reliability of an IOU's ability to generate earnings from prudent investments underpins the sustainability of the income stream and ultimately the dividend.

Furthermore, the stable and predictable earnings stream that utility investors value is put into question when the IOU makes prudent investments that

are either disallowed partially or entirely or are not allowed a reasonable return. In those instances, the Company has invested the capital but there is no offsetting revenue to compensate for those costs, and earnings decline. This has immediate implications on the IOU's stock price; if the investors surmise that the regulatory environment will prohibit future cost offsets, the stock price dislocation can be dramatic and long-lived, raising the IOU's cost of capital, which can lead to further deterioration of earnings.

Q: HOW IMPORTANT TO INVESTORS IS THE LEVEL OF GROWTH IN UTILITY EARNINGS?

A: A reasonable level of earnings growth is also important to investors. As stated above, an unusually large proportion of IOU investors is comprised of retail investors. Many of those retail investors are in the particular IOU's service territory, and own the stock because of their familiarity with the company and its services. These investors are generally long-term holders and less apt to trade the stock due to relative underperformance. The balance of investors, however, will select among comparable investments based on many factors, including total return, which, simply put, is the combination of capital returned (dividends) and capital appreciation (stock price performance). Therefore, in evaluating comparable IOUs for potential investment (as well as evaluating other non-utility companies for potential investment), both dividend yield and earnings per share ("EPS") growth dynamics matter greatly. Moreover, an investor will assess the sustainability of both the dividend and the EPS growth, looking at such factors as profitability, regulatory relationships, recent rate case outcomes, opportunities for

growth, capital efficiency (*e.g.*, IOU's ability to raise the capital required to make the investments at a reasonable price), and management credibility.

To illustrate this point, I have analyzed the proportion of the price/earnings ratio ("P/E ratio")[3] of several regulated utilities using a dividend discount model[4] to determine the relative importance to investors between the dividend payment and growth. In general, a higher P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. On a relative basis, future growth is a riskier value driver thesis than current and sustained dividends. The utility companies profiled are First Energy, Southern Company, Progress Energy, Duke Energy, Dominion, DTE Energy, Pacific Gas & Electric, AEP, Xcel Corporation, ConEd, and Ameren Corporation. These companies represent the full, current list of U.S. IOUs with equity market capitalization greater than $5 billion that are considered by the investing universe to have predominantly regulated businesses. The results in Figure 1 indicate that in eight out of eleven of the companies analyzed, growth was a more important contributor to stock price than dividend; in one case (Progress Energy) dividends were more important to stock price; and in two cases (ConEd and Ameren Corporation), both were equally important to stock price.

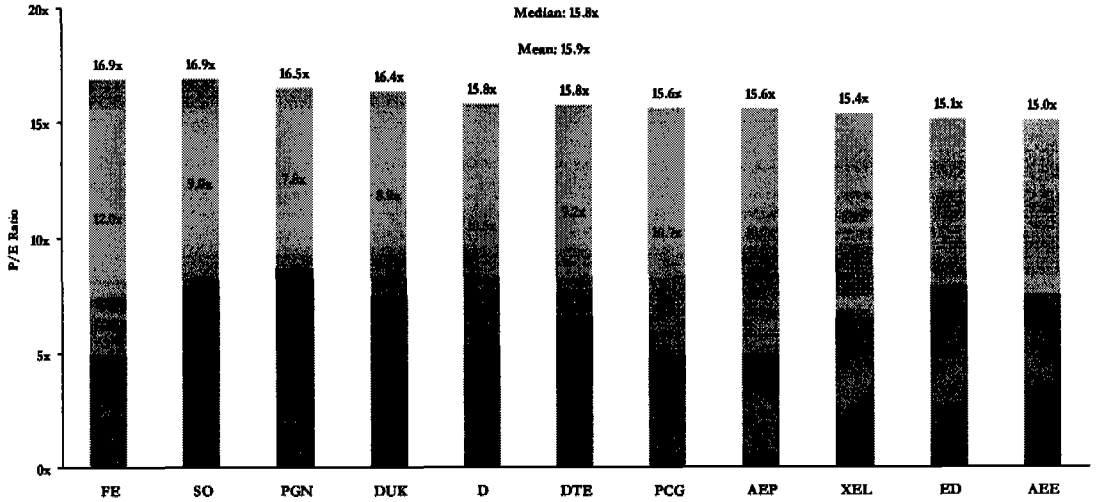
[3] A valuation ratio of a company's current share price compared to its per share earnings. A P/E ratio is calculated as: market value per share / earnings per share.

[4] A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares currently are trading at, then the stock is undervalued.

$$\text{Value of Stock} = \frac{\text{Dividend per share}}{\text{Discount Rate - Dividend growth rate}}$$

Figure 1

Regulated Utility 2008E P/E: Proportion of Growth v. Dividend



Source: FactSet, as of 12/05/07

Note: In all means and medians the high and low figures of the range are excluded. The P/E ratio of each company is broken down by the fraction that is allocated to a constant dividend payment and the fraction that is allocated to growth. The top of each bar in Figure 1 is the growth portion and the bottom is the dividend portion.

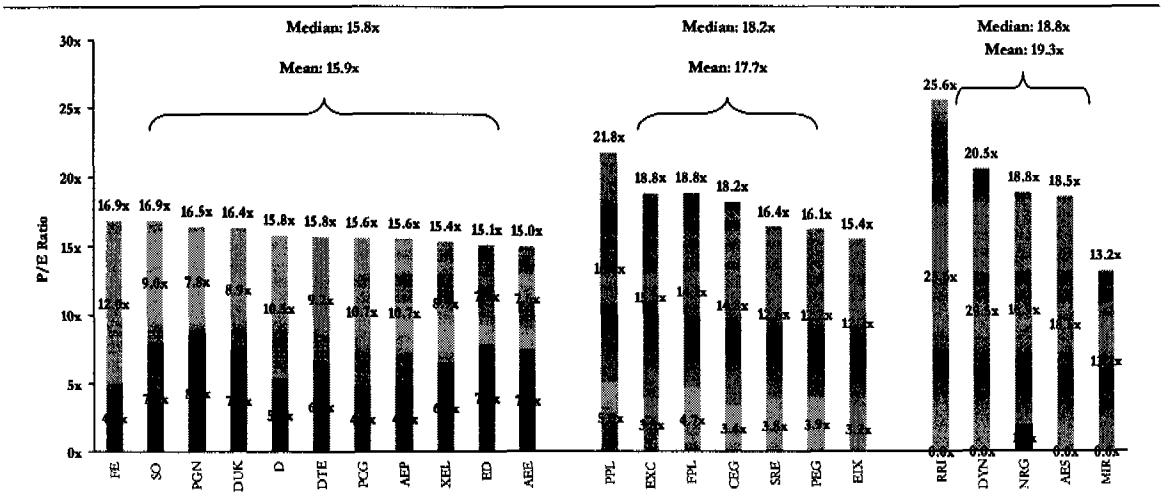
Q: HOW IMPORTANT TO INVESTORS IS THE MAGNITUDE OF RISK TAKEN ON BY THE UTILITY?

A: As stated above, investors in IOUs are seeking dividends and stable growth, and are, in general, more risk averse than investors seeking high growth. This can be demonstrated quantitatively by examining the relative valuations, as indicated through P/E ratios, of sectors that participate in the U.S. utility and power sectors. In Figure 2, I have added two additional sectors to the Regulated Utility Dividend

Discount chart presented in Figure 1. The hybrid/regulated sector includes the current universe of U.S. utility companies with equity market capitalization greater than $5 billion that are considered by the investing universe to have both regulated utilities and large unregulated businesses. These companies are: PPL Corporation, Exelon, Florida Power & Light, Constellation Energy, Sempra Energy, Public Service Electric and Gas, and Edison International. Investors perceive the unregulated businesses of these companies as being both riskier and higher growth than the regulated utility businesses of this universe. The Independent Power Producer ("IPP") sector includes all of the publicly traded U.S. independent power companies, with the exception of Calpine Corporation, which is currently in Chapter 11. These companies focus almost entirely on unregulated generation and, with the exception of the AES Corporation -- the owner of Indianapolis Power & Light -- have no U.S. regulated utility assets. These companies are: Reliant Resources, Dynegy Corporation, NRG Corporation, AES Corporation, and Mirant. Investors consider these companies to be "growth" companies, and, with the exception of NRG, which has a dividend-paying preferred stock outstanding, this universe is valued entirely on the basis of growth. Investors consider IPPs the riskiest companies among these three sectors. In Figure 2, I have indicated both the median and mean P/E ratios for each sector, as well as calculated the proportion of value attributed to growth (which is risky) versus dividends (which are stable), again using a dividend discount model.

Figure 2

Power and Utility 2008E P/E: Proportion of Growth v. Dividend



■ **Regulated Utilities** ■ **Hybrid IPP/Regulated**

■ **IPPs**

Source: FactSet, as of 12/05/07

Note: In all means and medians the high and low figures of the range are excluded. The P/E ratio of each company is broken down by the fraction that is allocated to a constant dividend payment and the fraction that is allocated to growth. The top of each bar in Figure 2 is the growth portion and the bottom is the dividend portion.

As would be expected, the P/E ratios increase as the riskiness of the sector and the proportion of value coming from growth versus dividends increases. The lowest P/E is associated with the regulated utilities and the highest P/E with the IPPs. If a particular IOU investor were to seek riskier investment opportunities

within the U.S. power and utility sector, there are numerous companies in which he or she can invest.

Q: IN YOUR VIEW, DOES DUKE ENERGY CAROLINAS' PROPOSED SAVE-A-WATT REGULATORY MODEL PROVIDE THE UTILITY WITH THE OPPORTUNITY FOR EARNINGS COMPARABLE TO AN INVESTMENT IN SUPPLY-SIDE RESOURCES?

A: In my view, the save-a-watt proposal does enable the utility to generate earnings that are comparable to an investment in supply-side resources, as the metric for valuing the energy efficiency contribution of save-a-watt is based on the avoided cost of the supply-side resource.

Q: IN YOUR VIEW, IS THERE A CORRELATION BETWEEN PROGRAM INCENTIVES, SUCH AS THOSE IN THE PROPOSED SAVE-A-WATT MODEL, AND INVESTMENT IN ENERGY EFFICIENCY PROJECTS?

A: Historically, utilities have been compensated for their investments in energy efficiency projects among their customers based on cost recovery of the IOU investments and/or "lost revenue" recovery (that is, recovery by the IOU of the margin it did not receive on the electricity that was not sold due to the energy efficiency program) and a share of the savings created. The cost recovery mechanism is generally through rate filings, thus adding a "regulatory lag," which creates a delay between the timing of the expenditure and its recovery. Jurisdictions characterized by these types of compensation mechanisms have broadly and significantly lagged behind jurisdictions that incorporate some manner of affirmative incentive to the IOU for energy efficiency programs in both

per capita expenditures for energy efficiency and in the results obtained. The save-a-watt proposal rectifies this problem by creating incentives.

There are at least 25 states with "serious" utility ratepayer-funded energy efficiency programs in operation, which genuinely attempt to achieve measureable energy savings, including using strategies like providing tangible incentives to customers to improve their energy efficiency.[5] (Other widespread approaches, such as listing conservation tips in mailers or online do not qualify as a "serious" energy efficiency program.) All of the states with serious utility ratepayer-funded energy efficiency programs in operation have some type of approved cost-recovery mechanism, and in some cases, combinations of mechanisms (*e.g.*, a public benefits charge plus the ability to recover additional energy efficiency program costs in rates). [6] By examining the programs of the states with the highest per capita spending, a common commitment to performance incentives for energy efficiency programs appears. Among the top ten states, Vermont, Massachusetts, Connecticut, Rhode Island, New Hampshire, Minnesota, and California have program incentives for utilities above and beyond cost recovery. The incentives in Oregon and New Jersey are administered by state organizations. Washington, alone, lacks both performance incentives for utilities and a state-administered electricity sector.[7] I cannot speculate on the degree of causality of this relationship; program spending levels are generally the result of a number of policy decisions and factors. However, it is clear that states

[5] Source: Kusher, Martin, Dan York, and Patti Witte. "Aligning Utility Interests with Energy Efficient Objectives." American Council for an Energy Efficient Economy. October 2006.
[6] Source: Ibid.
[7] Source: Ibid.

that are aggressively pursuing energy efficiency resources are also states that are likely to have enacted regulatory policies such as performance incentives.

Figure 3 summarizes energy efficiency activity in the top ten states of spending per capita.

Figure 3

Utility Spending on Energy Efficiency

		2004		Program Incentives		
Rank	State	Total Spending ($'000)	Per Capita Spending	Cost Recovery	Direct Lost Revenues Recovery	Performance Incentives
1	Vermont	$14,000	$22.54	Yes--Electric systems benefit charge (SBC)	No	Yes
2	Massachusetts	133,326	20.81	Yes--Electric SBC	No	Yes
3	Oregon	62,888	17.51	Yes--Electric SBC	No	NA
4	Connecticut	58,098	16.60	Yes--Electric SBC	No	Yes
5	Washington	88,522	14.26	Yes--Electric rate or tariff surcharge	No	No
6	Rhode Island	13,990	12.95	Yes--Electric SBC	No	Yes
7	New Hampshire	15,120	11.64	Yes--Electric SBC	No	Yes
8	Minnesota	55,784	10.95	Yes--Electric (based on legislative mandate)	No	Yes
9	New Jersey	92,753	10.68	Yes--Electric SBC	No	NA
10	California	380,009	10.60	Yes--Electric SBC plus funding through rates	No	Yes

Source: ACEEE State Energy Efficiency Scorecard for 2006

Q: IS IT IMPORTANT TO INVESTORS THAT A UTILITY HAVE AN OPPORTUNITY TO ACHIEVE EARNINGS ON ENERGY EFFICIENCY INVESTMENTS COMPARABLE TO WHAT THEY WOULD HAVE FROM A POWER PLANT INVESTMENT? IF SO, WHY?

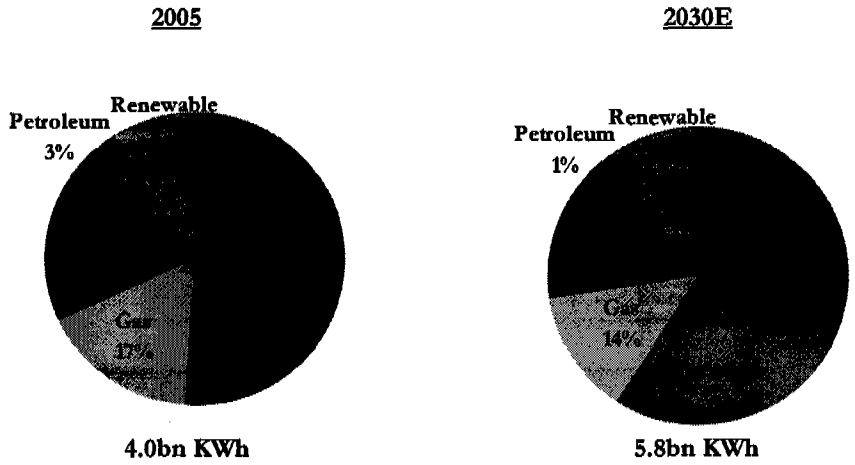
A: Yes. An opportunity to generate an earnings stream comparable to what an IOU would earn from a power plant investment is important for several reasons:

1. Capital is a finite resource, and an IOU's continued access to capital at the most efficient pricing possible is an important consideration to investors. Management teams must prioritize and rank their capital projects to evaluate the allocation of a company's resources relative to the investment opportunities available. Given this dynamic, companies will prioritize supply-side projects, which are allowed a regulatory rate of return on investment as well as cost recovery of expenditures, including the financing costs, over opportunities that allow cost recovery and/or lost revenue recovery only.
2. The U.S. electricity industry is about to undergo an unprecedented spate of utility infrastructure investment encompassing transmission, distribution, generation, and environmental remediation. This new investment will be responsive both to significant historical underinvestment over the past several decades and to the continued increase in demand for electricity as forecast by the Department of Energy ("DOE") and other organizations. The DOE expects the demand for power will grow 45% from current levels by 2030[8], as illustrated in Figure 4, which graphically illustrates what the U.S. government believes will be the increase in the amount and type of U.S. generation assets through 2030. Figure 5 reflects anticipated investment in all material aspects of regulated power through 2010.

[8] Source: Energy Information Administration

Figure 4

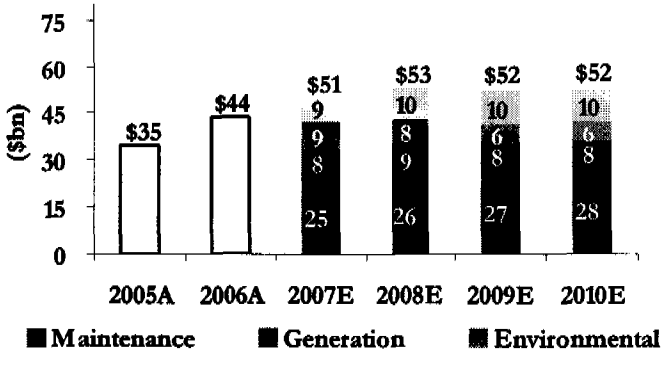
U.S. Demand for Electricity by Segment



Source: Energy Information Administration

Figure 5

Capital Expenditure Projections - Regulated Utilities



Source: Analyst projections (May 2007)

3. In order for companies to allocate an appropriate share of capital to energy efficiency programs, given the immense level of overall investment required, the programs will need to generate earnings that are comparable in both size and amount to an IOU's alternate use of capital (*e.g.*, supply-side resources).
4. From a broader point of view, the programs that are limited to cost recovery and/or lost revenue adjustments simply do not have a historical track record of "moving the needle" with respect to providing incentives to IOUs to maximize energy efficiency within their jurisdictions. As discussed previously in my testimony, at present there is an increasingly apparent national focus on the criticality of energy efficiency and conservation, which is a significant departure from even the recent past. Programs like save-a-watt align national objectives more closely with the need for every company to invest its limited capital in a way that achieves an optimal return on that capital.
5. Finally, at this point in time, energy efficiency programs do not, in general, comprise a material contribution (positive or negative) to U.S. IOUs' current earnings. As national priorities continue to shift toward conservation and energy efficiency, it is likely that energy efficiency programs may start to have more of an impact on the earnings of IOUs. At that point, the financial implications of regulatory jurisdictional disparities in the design of energy efficiency programs are likely to become apparent in the relative earnings and growth rate of earnings among IOUs. Those IOUs operating in regulatory regimes that allow them to replace most or all of the avoided supply-side

earnings (such as is contemplated under save-a-watt) are likely to be valued more highly by equity investors than those IOUs who have received cost recovery, lost revenue recovery, or a share of savings in their regulatory design. This is because, in general, without any regulatory relief, energy efficiency serves to reduce an IOU's revenues and earnings. Revenue decreases stem from people using less electricity (on a comparable basis) and earnings decreases stem from both having less revenue to cover the large fixed costs of the typical IOU and from not replacing the earnings from supply-side investments that do not need to be made due to the energy efficiency programs. The save-a-watt design is responsive to many of these issues inherent in energy efficiency while still offering a discount to customers on avoided cost.

Q: IN YOUR OPINION, HOW WILL INVESTORS VIEW THE RISKS OF THE SAVE-A-WATT REGULATORY MODEL, IN TERMS OF THE COMPANY ONLY GETING PAID IF IT ACHIEVES ACTUAL SAVINGS?

A: Investors would prefer that the payment is guaranteed, as this greatly enhances their visibility into the IOU's future earnings stream, and, as discussed before, investors in IOUs generally prefer certainty. That being said, investors will compare the risks of achieving the save-a-watt objectives to the risks of building a new power plant or other supply-side asset. (Those risks include budget and/or time overruns, inability of the asset to achieve its stated rate of production or efficiency, unplanned outages, etc.) Investors also will judge the probability of

the save-a-watt risks as compared to the supply-side risks. Overlaying their assessment of relative risk, investors will make a judgment on the management team and management's credibility in actualizing the save-a-watt objective. In my view, it is reasonable that investors in an IOU (versus the customers) bear the risks surrounding management credibility issues.

Q: IN YOUR OPINION, WHAT ARE THE BENEFITS FOR INVESTORS FROM THE SAVE-A-WATT MODEL?

A: In my view, investors will benefit from the save-a-watt model as it gives them a more certain methodology to calculate the financial impact of Duke Energy Carolinas' energy efficiency investments. In addition, the save-a-watt model is receiving attention in many regions of the U.S., as well as on a national level. Successful promulgation of this program may enhance Duke Energy's standing as a progressive, environmentally concerned utility, which may enable Duke Energy to compete more effectively for a wide range of critical resources, including talented personnel and efficiently priced capital.

On a secondary level, investors will gain from the societal benefits mentioned previously: the reduction of air pollution, decreased reliance on existing non-renewable resources, and the reduction in the construction of new non-renewable energy resources. These secondary benefits will be more pronounced for investors in Duke Energy Carolinas' direct service territory and contiguous areas.

Q: FROM YOUR PERSPECTIVE, WHAT ARE THE BENEFITS FOR CUSTOMERS OF THE SAVE-A-WATT MODEL?

A: In my view, the save-a-watt model has several benefits to customers:

1. The save-a-watt model has the potential to shift a significant portion of the immediate burden of the capital investment required for energy efficiency from the customer to the utility. The utility has a lower cost of capital than most, if not all, customers, and should be able to invest in energy efficiency on a scale that will promote investment in new technologies and innovations that will increase further the efficiency and/or reduce the costs of future energy efficiency products and services. Providing the customer with a cost-effective path toward energy efficiency is one of the most obvious benefits of the save-a-watt model for customers.
2. The proposal will maximize the amount of energy and demand-savings impact available to the Duke Energy Carolinas' customers. Not all customers would choose to invest their discretionary capital in energy efficiency products. The save-a-watt model is designed to ensure that ultimately, all energy efficiency investments will be made for which the marginal benefit is above the marginal cost.
3. The mechanisms within the save-a-watt model, which ensure that Duke Energy Carolinas achieves its financial thresholds only when the energy efficiency achievements have been verified independently, provides assurances to customers that they are receiving value for the amounts invested and ultimately put into rate base. And the pricing of energy efficiency investments at a rate equal to 90% of avoided supply-side costs ensures that

customers as a whole receive a discount when compared to the implementation of supply-side alternatives.

4. The societal benefits noted above are also benefits to Duke Energy Carolinas' customers.

Q: DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A: Yes.

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DOCKET NO. 2007-358-E

In Re:	)	
	)	
Application of Duke Energy Carolinas, LLC for Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	)	**CERTIFICATE OF SERVICE**

This is to certify that I, Leslie L. Allen, a legal assistant with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Testimony of Jane Sadowsky** in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

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Dated at Columbia, South Carolina this 10th day of December, 2007.

Leslie L. Allen